84-830

No. 84-____

Supreme Court, U.S.
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IN THE

# Supreme Court of the United States

OCTOBER TERM, 1984

ETHICON, INC.,

*Petitioner,*

—v.—

HANDGARDS, INC.,

*Respondent.*

## PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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## QUESTIONS PRESENTED

I. Under the First Amendment and the *Noerr-Pennington* doctrine, can a litigant forfeit immunity from antitrust liability by prosecuting a single lawsuit where the resolution of that suit depends on credibility findings and contestable legal conclusions?

II. Are trial and appellate courts required to make an independent evaluation of the sufficiency of the evidence relied upon to override a substantive First Amendment right, here the freedom to petition courts?

III. Can a finding of "bad faith" prosecution of a lawsuit constitute a *per se* illegal attempt to monopolize under section 2 of the Sherman Act?

IV. Does the newly-created Court of Appeals for the Federal Circuit have exclusive jurisdiction of an appeal in an action which arose in part under the patent laws and whose antitrust aspects are based solely upon enforcement of patent rights?

**Statement Required by Rule 28.1**

Petitioner Ethicon, Inc. is a wholly owned subsidiary of Johnson & Johnson. In addition to wholly-owned subsidiaries, the following are all of the affiliates of Johnson & Johnson:

ens Biologicals, Inc.
Enzo Biochem, Inc.
Immunomedics, Inc.

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## PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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Ethicon, Inc. ("Ethicon") requests that a writ of certiorari issue to review the final judgment and opinion of the United States Court of Appeals for the Ninth Circuit entered in this proceeding on August 2, 1984.

## OPINIONS BELOW

The opinion of the Court of Appeals, originally issued on August 2, 1984 and revised *sua sponte* by that court on September 26, 1984, is not as yet officially reported. It is the second opinion of the Ninth Circuit in this action and is referred to herein as "*Handgards II*." The original *Handgards II* opinion and the amendment are annexed hereto as Appendices A and B, respectively. An earlier decision ("*Handgards*

*I*") reversed a judgment for plaintiff and remanded for a new trial. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980)[1] (Appendix C). The District Court opinions are: *Handgards, Inc. v. Ethicon, Inc.*, 552 F. Supp. 820 (N.D. Cal. 1982) (Appendix D) (denying in relevant part Ethicon's post-verdict motions following the second trial); *Handgards, Inc. v. Johnson & Johnson*, 1976-2 Trade Cases (CCH) ¶ 61,138 (N.D. Cal. 1976) (Appendix E) (denying in relevant part Ethicon's post-verdict motions following the first trial); and *Handgards, Inc. v. Johnson & Johnson*, 413 F. Supp. 921 (N.D. Cal. 1975) (Appendix F) (granting in part and denying in part Ethicon's motion for summary judgment).

## JURISDICTION

The judgment of the Court of Appeals for the Ninth Circuit was entered on August 2, 1984. This petition for a writ of certiorari was timely filed on November 20, 1984 pursuant to an extension granted by Mr. Justice Rehnquist on October 23, 1984. This Court has jurisdiction under 28 U.S.C. § 1254(1).

## CONSTITUTIONAL PROVISIONS INVOLVED

United States Constitution, Article I, Section 8, clause 8:

> To promote the Progress of Science and the useful Arts, [Congress shall have Power to secure] for limited times to Authors and Inventors the exclusive right to their respective writings and discoveries. . . .

United States Constitution, Amendment I:

> Congress shall make no law . . . abridging the . . . right of the people . . . to petition the Government for a redress of grievances.

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1 Mr. Justice White would have granted the petition and cross-petition for a writ of *certiorari*. 444 U.S. at 1025.

## STATUTORY PROVISIONS INVOLVED

15 U.S.C. §§ 2, 15; 35 U.S.C. §§ 102(b), 102(g). These provisions are set forth in the Statutory Appendix.

## STATEMENT OF THE CASE

### The Prior Patent Enforcement Action—A Case That "Could Have Been Decided Either Way"

This case is the sequel to a patent infringement suit brought by petitioner Ethicon against Handgards for infringment of its patent on a process for producing a heat-sealed plastic glove (the "Gerard patent"). Ethicon also owned and sued on a patent on the glove itself (the "Orsini patent"), but later withdrew the Orsini patent claims from the suit.

The non-jury trial of the Gerard patent infringement suit took place in February, 1968. Handgards admitted infringement if the patent was valid, but challenged validity on the sole ground that a third party, one Shabram, had made a "public use" of the Gerard process more than one year before Gerard filed his patent application. 35 U.S.C. § 102(b). This defense depended on the credibility of Mr. Shabram, a former principal of Handgards, whose assertion of a prior public use at trial contradicted his own earlier sworn statements and was impeached by other documentary evidence. The trial court, however, credited his testimony, and found the Gerard patent to be invalid. The court did not adopt Handgards' proposed finding of fact that Ethicon had been guilty of bad faith litigation, and Handgards thus never moved for an award of attorney's fees available under 35 U.S.C. § 285 as a sanction against conducting patent litigation in bad faith.

On appeal, the Ninth Circuit affirmed the judgment of invalidity. It held that, although the case was "one that could have been decided either way," the trial court's credibility-based ruling was not clearly erroneous. *Ethicon, Inc.* v. *Handgards, Inc.*, 432 F.2d 438, 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971).

## The Proceedings In Handgards I

Handgards filed this antitrust action shortly after the district court adjudged the Gerard patent invalid in 1968. Its principal claim was that the Orsini patent—the one withdrawn from the patent infringement suit by Ethicon—had been fraudulently procured and its enforcement constituted attempted monopolization. *See Walker Process Equipment Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). Handgards eventually abandoned this theory as meritless. Yet it was permitted to go to trial on the novel theory that, although neither the Gerard nor the Orsini patent had been fraudulently procured, Ethicon had attempted to enforce them "in bad faith," *i.e.*, with "knowledge" of the invalidity of the patents.[2] Handgards also charged that the lawsuit was part of an "overall scheme" to monopolize the market of heat-sealed disposable plastic gloves. *See Handgards, Inc.* v. *Johnson & Johnson*, 413 F. Supp. 921, 923-25 (N.D. Cal. 1975).

The 1976 trial resulted in jury findings that (i) the Orsini patent was valid and infringed by Handgards; (ii) the infringement claims with respect to the Gerard patent had been prosecuted by Ethicon in bad faith in violation of section 2 of the Sherman Act; and (iii) the lawsuit was part of an overall scheme to monopolize the relevant market.

In *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979) ("*Handgards I*"), the Ninth Circuit reversed and remanded for a new trial. It held, first, that Ethicon engaged in no "overall scheme to monopolize" in that there was no evidence of anticompetitive acts external to the lawsuit (App. C at 51a). Second, the court decided that an infringement action conducted "in bad faith" may, without more, constitute an attempt to monopolize in violation of section 2, but reversed because of its ruling that the bad faith theory should have been submitted to the jury on a "clear and convincing" standard of proof (*Id.* at 54a). Handgards did not appeal the judgment decreeing that the Orsini patent was valid and infringed.

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2 The district court thus required that Handgards amend its complaint to seek a declaration of Orsini's invalidity, which had never been adjudicated.

**The Proceedings In Handgards II**

The remand resulted in a general verdict for Handgards, and in its second decision below, the Ninth Circuit affirmed. *Handgards, Inc.* v. *Ethicon, Inc.*, ____ F.2d ____ (9th Cir., Aug. 2, 1984) ("*Handgards II*"). The damage award was based primarily on Handgards' "lost profits." After trebling, and with fees and interest, it now totals $18 million.

The Court had asked for special briefing on the question whether it or the Court of Appeals for the Federal Circuit had jurisdiction of the appeal. The *Handgards II* decision upheld jurisdiction of the regional courts of appeal in a case such as this one combining patent and antitrust claims (App. A at 4a-8a), and thus proceeded to the merits.

In its first antitrust opinion, the Court of Appeals had considered but did not reach the question whether its principal holding on bad faith patent enforcement was consistent with this Court's *Noerr-Pennington* line of decisions establishing an immunity from antitrust liability for petitioning activity. (App. C at 53a, n. 16; id. at 58a-60a (Kennedy, J. concurring)). In *Handgards II,* however, the court squarely held that bad faith litigation "easily affords the equivalent of the 'sham' exception" to the *Noerr* doctrine, and thereby affirmed the district court's refusal to instruct the jury on Ethicon's constitutional right to petition. (App. A at 21a).

The Court of Appeals also considerably amplified its prior ruling that bringing a "bad faith" lawsuit could amount to an antitrust violation. In its *sua sponte* amendment to its opinion issued on September 26, 1984, the court for the first time characterized the bad faith in prosecuting a lawsuit as being "extrinsic" to the lawsuit itself, and held that "bad faith" in prosecuting the suit could be proved by jury speculation that the prior plaintiff "knew" that potential, unlitigated affirmative defenses, if tried, would have been established (App. B at 34a-35a).

*Handgards II* also held that neither the trial nor appeals court had a duty to independently review the record to determine whether there was sufficient evidence to deprive Ethicon of its constitutional right to a day in court. (App. A at 9a, 10a, 32a). It used the "substantial evidence" rubric to affirm on the

rationale that the jury "could" have found that Ethicon "knew" the Gerard patent was invalid on three separate grounds: the credibility issue of Shabram's prior public use actually tried in 1968, and two other affirmative defenses that Handgards had abandoned in the patent trial (App. A at 12a-17a).

The first of these unlitigated affirmative defenses was priority of invention of Shabram over Gerard. 35 U.S.C. § 102(g). Resolution of this defense, however, turned on the chronology of Shabram's invention and thus would have presented the identical credibility issues as the one actually litigated, Shabram's prior public use.

The other unlitigated defense was whether Gerard had placed his patented process "on sale" more than one year prior to filing his patent application within the meaning of 35 U.S.C. § 102(b). Resolution of this defense would have turned on the legal conclusions to be derived from the undisputed facts that more than one year prior to filing Gerard exhibited samples of his gloves to a potential marketer and took an order for gloves to be supplied when, as and if he developed a commercial process.

## REASONS FOR GRANTING THE WRIT

The decision below by the Ninth Circuit that a single patent infringement suit brought by a patentee with "knowledge" of evidence of the invalidity of its patent is a sham lawsuit under the *Noerr-Pennington* doctrine denies a patentee its First Amendment right to petition the courts. Moreover, the threat to patentees that unwarranted section 2 liability will ensue from the prosecution of a single lawsuit based on a validly-issued patent will seriously devalue the patent rights afforded by Congress to inventors under the patent laws. Such devaluation will discourage investment in research and development and chill disclosure of inventions through the patent system at a time when invention is crucial to the improvement of the

competitive position of the United States in a technology-dependent world.

The significance of the unique rule created by the Ninth Circuit goes far beyond patent litigation. As *Handgards II* makes clear, "bad faith" can be established simply by relitigating the merits of a prior action. The Ninth Circuit's bad faith rule permits an antitrust jury to infer, based on any evidence in the record contrary to the prior plaintiff's claim, that the litigant "knew" it would lose its case. This formless bad faith standard invites endless relitigation of the merits of prior actions. It conflicts with the decisions of this Court and several other Circuits, which have properly construed "sham litigation" as a narrow exception to the fundamental right to petition.

The courts below refused to independently review the record to determine whether there was sufficient evidence for a jury to penalize Ethicon's constitutional right to litigate. Since the *Noerr-Pennington* immunity derives from the First Amendment right to petition, this Court should affirm that the well-established rule of independent judicial review of the record in Constitutional cases applies where antitrust liability has been imposed to punish the act of petitioning the courts.

Finally, the Ninth Circuit, citing its unique *per se* approach for section 2 attempt cases, held that bad faith prosecution in and of itself proved a specific intent to monopolize and that proof of actual exclusion of competition resulting from the challenged conduct was not needed. The combined effect of its holdings that bad faith prosecution of a single suit satisfies the sham exception, that such bad faith may be inferred merely from the evidence in the prior suit, and that this bad faith finding results in a virtual *per se* violation of section 2 of the Sherman Act eviscerates the constitutional right to petition.

In sum, intervention by this Court is sorely needed to resolve the conflict and confusion among the Circuits with respect to the scope of the "sham exception," to restore to patentees the fundamental right of access to the courts that has been so lightly discarded in this case, and to maintain the incentives in the U.S. patent system.

## I. UNDER THE FIRST AMENDMENT AND THE *NOERR-PENNINGTON* DOCTRINE, A LITIGANT CANNOT FORFEIT IMMMUNITY FROM ANTITRUST LIABILITY BY PROSECUTING A SINGLE LAWSUIT WHERE THE RESOLUTION OF THAT SUIT DEPENDS ON CREDIBILITY FINDINGS AND CONTESTABLE LEGAL CONCLUSIONS

### A. The Ninth Circuit Ignored This Court's Controlling Precedents Limiting the Scope of the "Sham Litigation" Exception

Access to the courts of the United States is one of the basic freedoms guaranteed by the Bill of Rights. Given the importance of this freedom, this Court has held that using the courts to resolve disputes with a competitor is immune from liability under the antitrust laws (the "*Noerr-Pennington* doctrine"). *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. 508 (1972). The fact that the sole purpose in resorting to the courts is to eliminate competitors will not generally give rise to a violation of the antitrust laws. *Id.* Only when a litigant is using the lawsuit as a "mere sham" to interfere directly and unlawfully with a competitor's business has this Court held that the application of the Sherman Act would be justified. *Id.; see also, United Mine Workers of America* v. *Pennington*, 381 U.S. 657 (1965); *Eastern R.R. Presidents Conference* v. *Noerr Motor Freight*, 365 U.S. 127 (1961).

The decisions of this Court make it clear that the "sham exception" to the immunity of lawsuits from the antitrust laws is an extremely narrow one. *California Motor Transport, supra*, the leading decision, establishes that invoking the "sham exception" is appropriate only under circumstances that are not remotely present in this case.

The first is where the challenged lawsuit is coupled with other anticompetitive conduct designed to interfere directly and unlawfully with the business of a competitor. In such a case, litigation is combined with extrinsic acts in an overall scheme to violate the antitrust laws. *See* 404 U.S. at 513, 515.

If, however, the litigant's only challenged activity is seeking a judicial decree, the sham exception requires a showing of gross misconduct that caused or is likely to cause the grant of undeserved relief. For instance, in *California Motor Transport*, this Court stated that *Noerr-Pennington* immunity would not extend to "illegal and reprehensible practice[s] which may corrupt the administrative or judicial processes," such as perjury, fraud, and conspiracy with or bribery of government decisionmakers. 404 U.S. at 513.[3] In commenting on *California Motor Transport*, a Harvard Law Review Note[4] observed:

> the [antitrust] plaintiff must show that the defendant instituted the litigation with the purpose of achieving a 'collateral' objective, and that he committed a specific act—*other than those acts incidental to the normal use of the court or agency*—directed at attaining that objective.

Finally, this Court's recent decision in *Bill Johnson's Restaurants* v. *NLRB*, ____ U.S.____, 103 S. Ct. 2161 (1983) adds a significant gloss on the right to petition courts. Although decided under the labor laws, the case affords important lessons for construing the *Noerr-Pennington* antitrust doctrine and exposes the threat created by the Ninth Circuit's "bad faith" test. Thus, among the crucial questions presented by this case is whether the reasoning and holding of *Bill Johnson's Restaurants* will be part of *Noerr-Pennington* antitrust jurisprudence.

In *Bill Johnson's Restaurants*, the National Labor Relations Board sought to enjoin as an unfair labor practice a lawsuit filed by an employer against employees. Recognizing the need to guarantee a litigant's First Amendment right of petition as

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3 *See also Otter Tail Power Co.* v. *U.S.*, 410 U.S. 366, 380 (1973); *Vendo Co.* v. *Lektro-Vend Corp.*, 433 U.S. 633 (1977).

4 Note, "Limiting the Antitrust Immunity for Concrete Attempt To Influence Courts and Adjudicatory Agencies: Analogies to Malicious Prosecution and Abuse of Process," 86 Harv. L. Rev. 645, 732 (1973) (emphasis supplied).

was done in the antitrust context under *Noerr-Pennington* doctrine, the Court unanimously held that the filing and prosecution of a lawsuit having a "*reasonable basis*" could not be enjoined by the NLRB even if the suit had an unlawful retaliatory purpose. The Court proceeded to limit the permissible scope of the inquiry into the "reasonable basis" for prosecuting a lawsuit:

> Although the Board's reasonable basis inquiry need not be limited to the bare pleadings, if there is a genuine issue of material fact that turns on the *credibility of witnesses* or on the *proper inferences to be drawn from undisputed facts*, it cannot, in our view, be concluded that the suit should be enjoined. *Id.* at 2171.

This Court has never held that a single suit may be determined to be a sham merely by relitigating the merits to establish whether the plaintiff thought he would lose. Asserting in a single lawsuit claims as to which a plaintiff knows there is some contrary evidence or legal authority and which, in the course of litigation, may be unsuccessful hardly rises to the level of a "sham" under the standards set forth by this Court in *California Motor Transport* and other *Noerr-Pennington* cases. Yet, *Handgards II* allows a subsequent antitrust jury to infer from that same contrary evidence or legal authority that the litigant "knew" he would lose. Conspicuously absent from the Ninth Circuit's analysis is any consideration of whether the litigant had a *reasonable basis* for making its claims, notwithstanding the possibility that such claims might ultimately be rejected.

The Ninth Circuit's approach entirely misses the point of the sham exception. It is a gross oversimplification of the litigation process to think that a party "knows" from the outset whether its claim is valid or invalid.[5] This is particularly so in the area

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5 Relevant are the words of Samuel Johnson, regarding what a lawyer "knows" about a case. In response to Boswell's question: "But what do you think of supporting a cause which you know to be bad?" Dr. Johnson replied: "Sir, you do not know it to be good or bad till the Judge determines it." 2 *J. Boswell's Life of Samuel Johnson* 47 (Hill ed. 1887).

of intellectual property rights, where the validity issue presents mixed questions of fact and law, and typically is one of great complexity. As Judge Learned Hand observed, the issue of patent validity is often "as fugitive, impalpable, wayward, and vague a phantom as exists in the whole paraphernalia of legal concepts . . . . If there be an issue more troublesome, or more apt for litigation than this, we are not aware of it." *Harries v. Air King Products Co.*, 183 F.2d 158, 162 (2d Cir. 1949).

A good example of the unpredictability of patent litigation may be found in this very case. Ethicon's counsel elected to drop the infringement claims against Handgards based on the Orsini patent in view of his belief that Gerard was the stronger of the two patents. As it happened, Gerard was adjudged invalid, but later Orsini was held to be valid and infringed by Handgards. Ethicon's "bad faith" thus boils down to a trial lawyer's judgment that one patent, and not the other, was Ethicon's best chance to win the lawsuit. But a prediction which ultimately turned out to be incorrect as to which of two patents would best present a successful infringement claim against a competitor cannot be a "sham" under any rational construction of the term. That it resulted in treble damage liability as an "attempt to monopolize" reveals the unacceptability of the Ninth Circuit's bad faith rule.

A participant in complex litigation will always be aware of the possibility that its claim could be found invalid. Such "knowledge," however, does not mean there is no reasonable basis for a lawsuit, and should not defeat a complainant's constitutional right to assert claims against its competitors. Open and shut cases, after all, rarely reach the stage of a trial. But hotly contested issues of fact and law also require adjudication, and suits involving such issues should not be deterred by the prospect of treble damages. Indeed, it is precisely this type of case that requires the constitutional protection discarded by the Ninth Circuit.

While all litigants are entitled to protection from the second-guessing indulged in by juries under the "bad faith" rubric fashioned by the Ninth Circuit, patent owners are, if anything, deserving of the highest level of solicitude. A lawfully-issued

patent is presumptively valid, 35 U.S.C. § 282, and is itself a grant of a right to sue. *Id.* § 271(d)(3). "Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts." *Virtue* v. *Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913). As Justice Harlan cautioned, concurring in the *Walker Process* decision:

> To hold, as we do not, that private antitrust suits might also reach monopolies practiced under patents that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent, might well chill the disclosure of inventions through the obtaining of a patent because of fear of the vexations or punitive consequences of treble damage suits. Hence, this private antitrust remedy should not be deemed available to reach § 2 monopolies carried on under a nonfraudulently procured patent.

382 U.S. at 180 (Harlan, J., concurring).

The significance of *Handgards*, then, is that no business can ever sue a competitor, at least on a patent, without the threat that a subsequent antitrust jury will impose treble damage liability wherever there is *any* evidence from which a jury could subsequently speculate as to bad faith. This dangerous and chilling precedent will apply even to cases where, as here, the issue of validity "could have been decided either way," and where, as here, the judge who tried the patent suit of several weeks' duration refused to adopt proposed findings that the patentee had acted in bad faith. The decision is even more pernicious because it permits the subsequent antitrust jury to make such inferences based solely on hypothetical patent defenses that the alleged infringer's patent counsel had judicially abandoned in prior proceedings.

This serious erosion of the constitutional right to petition flows from the Ninth Circuit's evasion of the careful limits imposed by this Court on the sham exception. The jury was not even apprised that Ethicon's constitutional rights were at stake, and the Court of Appeals approved the trial court's

refusal to give any instruction mentioning the *Noerr-Pennington* doctrine, the First Amendment, or the right to petition. (App. A at 21a). This is the only case of which we are aware that has found a single meritless prosecution of a non-fraudulently-procured patent, and not as an integral part of a wider scheme to monopolize, to amount to an illegal attempt to monopolize. It fails to satisfy all of the tests previously set forth by this Court for sham litigation.

**B. Ethicon's Suit Was Not A "Sham"**

The suit brought by Ethicon against Handgards and its predecessors does not begin to meet the established standards for the "sham exception."

*First,* it was expressly held that the suit brought by Ethicon was *not* an integral part of a larger scheme external to the litigation unlawfully to interfere with Handgard's business. In *Handgards I,* the Court specifically held that "Handgards has neither pleaded nor proved that Ethicon engaged in a pattern of baseless repetitive litigation designed to prevent meaningful access to an adjudicatory tribunal," and that there was no evidence of an "overall scheme" to monopolize the market for heat-sealed disposable plastic gloves. *Handgards I,* App. C at 51a. The afterthought in the amendment by the Ninth Circuit to its *Handgards II* opinion that prosecuting a patent suit in bad faith is "extrinsic" to the lawsuit (App. B at 35a) does not make it so.

*Second,* Ethicon's conduct concededly did not meet the test of gross misconduct in the course of the litigation that is instrumental in obtaining undeserved relief. Ethicon obtained no relief, and in any event, none of the acts alleged against Ethicon comes close to the type of procedural abuse amounting to a "sham". Neither of the patents was fraudulently procured. And, while Handgards claims that Ethicon "lied" during the course of the lawsuit, the alleged "lies" were answers to contention interrogatories in which Ethicon stated the earliest date it hoped to prove for Gerard's reduction to practice—a complex legal judgment on a highly arcane issue of patent law. The reduction to practice issue was never litigated,

however, and Handgards conceded both during the patent and antitrust actions that Ethicon's interrogatory answers neither misled nor prejudiced it. In short, Ethicon was portrayed as a "liar" for asserting legal contentions on immaterial matters. This charge, relied on heavily in *Handgards II* as evidence of "bad faith," (App. A at 12a-13a, 14a) is one that could be levelled at virtually any litigant and clearly exposes the wrongheadedness of the Ninth Circuit's approach.

*Third,* if the *Bill Johnson's Restaurants* "reasonable basis" test is to be assimilated to the *Noerr-Pennington* doctrine, Ethicon's suit against Handgards cannot be characterized as lacking a reasonable basis because the only grounds of invalidity at issue turned either on credibility findings or the resolution of contestable legal conclusions from fully disclosed facts. Here, "bad faith" was premised on three theories: (1) the alleged prior public use by Shabram; (2) Shabram's alleged priority of invention; and (3) Gerard's alleged statutory "sale" of his patented process. The first two theories depended entirely on the credibility of witness Shabram. The third posed the thorny legal question under the patent laws whether delivery of a product constitutes a "sale" of the patented process by which it is made. As *Bill Johnson's Restaurants* makes abundantly clear, litigating such credibility issues and debatable points of law cannot be deemed a "sham." 103 S. Ct. at 2171.

The Court below never denied, but also never considered, Ethicon s "reasonable basis" for litigating these issues. It never paused to acknowledge that Handgards could not conceivably have obtained summary judgment on the first two theories based on Shabram's credibility.[6] It never paused to review the legal authorities cited in the opinion letter of Ethicon's patent counsel that concluded there was no invalidating "sale" of the Gerard process (DX 1110). In short, it never considered

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6 This Court noted in *Bill Johnson's Restaurants* that the "genuine issue of fact" test used on motions for summary judgment and the analogous "reasonable jury" test on motions for directed verdict were suitable guides for evaluation of a litigant's "reasonable basis" for bringing suit. 103 S. Ct. at 2171 n. 11.

whether there existed evidence or legal authorities from which the patent owner could colorably conclude the patent *might be valid.*[7] The Ninth Circuit merely concluded that there was sufficient evidence from which a jury could conclude that the patent was *invalid,* and from this same evidence upheld the jury inference that Ethicon "knew" it was invalid. (*See, e.g.,* App. A at 16a-17a; App. B at 35a). But this turns the *Bill Johnson's Restaurants* rule on its head. The proper question is not whether Ethicon had an open and shut case and Handgards no defense at all, but whether Ethicon had a reasonable basis for litigating its claim.

### C. This Court Should Resolve the Conflict and Confusion Among the Circuits Regarding the Scope of the "Sham Exception"

A review of federal court decisions dealing with the *Noerr-Pennington* sham litigation exception reveals deep division and increasing confusion over the scope of the exception and the definition of "sham." In the most recent cases, courts have noted the undetermined scope of the exception as it relates to prior litigation and have regularly commented upon the absence of a clear legal standard for evaluation of claims of "sham litigation."

The following comments are illustrative: "The Supreme Court has never defined . . . the standard for determining when litigation is a sham." *Coastal States Marketing, Inc.* v. *Hunt,* 694 F.2d 1358, 1371 (5th Cir. 1983). "Whether a single legal proceeding . . . may be considered a basis of a 'sham' exception . . . is not altogether clear." *Cleveland v. Cleveland Electric Illuminating Co.,* 734 F.2d 1157, 1162 (6th Cir. 1984),

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7 In *Nemeroff v. Abelson,* 620 F.2d 339, 348 (2d Cir. 1980), the court held that a claim must be found "entirely without color" before attorneys fees could be assessed for bad faith litigation. It said:

> A claim is colorable, for the purpose of the bad faith exception, when it has some legal and factual support, considered in light of the reasonable beliefs of the individual making the claim. The question is whether a reasonable attorney could have concluded that facts supporting the claim *might be established,* not whether such facts actually *had been established.* [emphasis in original].

*cert. denied,* 53 U.S.L.W. 3269 (U.S., Oct. 9, 1984). "This Circuit . . . has not set forth any general definition of 'sham' litigation." *MCI Communications Corp. v. American Telephone & Telegraph Co.,* 708 F.2d 1081, 1156 (7th Cir.) *cert. denied,* ____ U.S. ____, 104 S. Ct. 234 (1983). "The cases are not uniform in setting out what must be shown to avoid the immunity of *Noerr-Pennington.*" *Sage International, Ltd. v. Cadillac Gage Co.,* 507 F. Supp. 939, 947 (E.D. Mich. 1981). "The precise dimensions of the sham exception . . . are far from clear." *Gainesville v. Florida Power & Light Co.,* 488 F. Supp. 1258, 1264 (S.D. Fla. 1980). "The United States Supreme Court has not yet decided whether litigation activity in the context of one lawsuit is conduct which is subject to the 'sham exception.' " *First National Bank of Omaha v. Marquette National Bank of Minneapolis,* 482 F. Supp. 514, 520 (D. Minn. 1979), *aff'd,* 636 F.2d 195 (8th Cir. 1980), *cert. denied,* 450 U.S. 1042 (1981).

These observations, coupled with the proliferation of antitrust claims premised on the sham exception,[8] demonstrate the compelling need for clarification from this Court. The following survey of recent decisions of the lower federal courts confirms the confusion, conflict and multiplicity of inconsistent rules that have evolved to deal with the issues presented in a case like *Handgards.*

*The Ninth Circuit*: *Handgards* strayed from the sham litigation doctrine as set forth in *California Motor Transport.* In *Handgards I,* the Court of Appeals funneled Ethicon's single lawsuit into the sham exception despite the absence of anticompetitive acts extrinsic to the lawsuit, and even though the determination of patent validity turned on the credibility of a witness. This *Handgards* decision, according to the D.C. Circuit, reflects "the furthest reach in patent enforcement antitrust liability jurisprudence. . . ." *Oetiker v. Jurid Werke GmbH,* 671 F.2d 596, 601 (D.C. Cir. 1982). Yet, in a case

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8 Appendix G to this Petition collects, on a year-by-year basis, all reported decisions since 1970 that deal with the *Noerr-Pennington* doctrine in connection with judicial or administrative litigation. As is apparent, such claims are precipitously increasing in frequency.

decided only five days after the instant case, a Ninth Circuit panel including two of the judges joining in *Handgards II* held that where a section 2 claim is based on a single suit rather than a pattern,

> a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive.

*Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984).[9] Strangely, while *Handgards II* relies on the charge that Ethicon "lied" during the patent trial, the panel in *Omni Resources* held that an identical charge "can easily be levelled, and it is thus insufficient by itself to overcome *Noerr-Pennington* immunity." *Id.*

*The Seventh Circuit*: It has also refused to follow this Court's *Noerr-Pennington* doctrine. In *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), it held that a single well-based lawsuit could lack immunity if brought for an anticompetitive motive. It has also suggested in dicta that a single lawsuit brought in bad faith can be the basis of an antitrust action. In *MCI Communications Corp. v. American Telephone & Telegraph Co., supra,* 708 F.2d at 1155, it opined "that the bringing of baseless claims—even the undertaking of a single sham state court lawsuit—is devoid of the constitutional significance that warrants immunity from the antitrust laws."

*The Tenth Circuit*: In sharp contrast to the views of the Ninth and Seventh Circuits, this Circuit has taken a restrictive approach to the sham exception. In the Tenth Circuit, fraud, corruption or misuse of the judicial process is clearly required before a lawsuit will be characterized as a sham. The mere

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9 As noted earlier, the Ninth Circuit's revision of *Handgards II* (*after Omni Resources* was issued) to characterize Ethicon's state of mind in bringing suit as an act "extrinsic" to the lawsuit itself exposes the hopeless tautology of the decision below.

filing of a lawsuit "without probable cause" and with anti-competitive intent will not forfeit *Noerr-Pennington* immunity. *Hydro-tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171 (1982).

*The Sixth Circuit* gives strong approval to this narrow view of the exception. This Circuit has followed the *California Motor Transport* standard of "baseless, repetitive claims or abuse of processes" that bars "access to agencies and courts" as the predicate to antitrust liability. *Cleveland v. Cleveland Electric Illuminating Co., supra,* 734 F.2d at 1162.

*The Fourth, Eighth and D.C. Circuits* to a greater or lesser degree have also retained at least some elements of the *California Motor Transport* standards. *Hospital Building Co. v. Trustees of Rex Hospital,* 691 F.2d 678 (4th Cir. 1982) *cert. denied,* ____ U.S. ____, 104 S. Ct. 231 (1983); *Virginia Academy of Clinical Psychologists v. Blue Shield of Virginia,* 624 F.2d 476 (4th Cir. 1980); *Alexander v. National Farmers Organization,* 687 F.2d 1173 (8th Cir. 1982) *cert. denied,* ____ U.S. ____, 103 S. Ct. 2018 (1983); *Federal Prescription Service v. American Pharmaceutical Ass'n,* 663 F.2d 253 (D.C. Cir. 1981), *cert. denied,* 455 U.S. 928 (1983).

*The Second Circuit:* While the decisions within this Circuit also required more than one bad faith lawsuit to make out an antitrust violation, the confused state of the law is clearly reflected in its opinions. On the one hand, the oft-quoted opinion of the then District Judge Newman in *Mountain Grove Cemetery v. Norwalk Vault Co.,* 428 F. Supp. 951 (D. Conn. 1977) held that unless the single baseless lawsuit involves conduct that abuses or corrupts the judicial process, it does not come within the sham exception. This strongly-worded decision found accord in *Miracle Mile Associates v. City of Rochester,* 617 F.2d 18 (2d Cir. 1980) which held that "access-barring is the cornerstone to the sham exception." Yet three years later, the Second Circuit held that barring a competitor's access to courts or agencies was not a key factor. The suggested new standard was whether a defendant truly hoped to influence a government decision, and whether there was a reasonable expectation of doing so. *Litton Systems, Inc. v.*

*Southwestern Bell Telephone Co.*, 700 F.2d 785 (2d Cir. 1983), *cert. denied*, ____ U.S. ____, 104 S. Ct. 984 (1984) (holding that the defendant's conduct was not protected by *Noerr-Pennington*). Significantly, on the identical facts before the Second Circuit in *Litton*, Judge Harold Greene of the D.C. District concluded that AT&T came within the protection of *Noerr-Pennington*. *United States v. American Telephone & Telegraph Co.*, 524 F.Supp. 1336 (D.D.C. 1981). The D.C. Circuit in *Jack Faucett Associates v. American Telephone & Telegraph Co.*, 1984-2 Trade Cas. (CCH) ¶ 66,186 (D.C. Cir. 1984) denied collateral estoppel effect to the *Litton* case on the basis of its irreconcilability with the conclusion reached by Judge Greene. The D.C. Circuit stated: "Each court applied the same doctrine to largely the same facts but reached opposite conclusions about the reach of *Noerr-Pennington*." 1984-2 Trade Cas. at p. 66,682.

*The Fifth Circuit* reflects similar confusion in its leading cases. One decision seemed to require that litigation be in good faith for *Noerr-Pennington* protection to attach; but at the same time the court lamented that the Supreme Court has never determined when litigation should be deemed a sham. *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358 (5th Cir. 1983). Another decision inconsistently required proof of "specific acts, other than those incidental to normal use of the courts," in order to find an antitrust violation. *Associated Radio Service Co. v. Page Airways, Inc.*, 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981). And a recent district court decision required proof of fraud, perjury or other practices constituting a corruption of the judicial process before a defendant lost antitrust immunity. *Rohm & Haas Co. v. Dawson Chemical Co., Inc.*, 557 F. Supp. 739 (S.D. Tex. 1983), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556 (5th Cir. 1983).

*The First, Third and Eleventh Circuits* have yet to speak directly on the issue. The district courts in these Circuits, however, are divided or confused. In *Codex Corp. v. Racal-Milgo, Inc.*, 1984-1 Trade Cas. (CCH) ¶ 65,853 (D. Mass. 1984), a district court held that misrepresentation of facts in a

single patent litigation could, if proven, constitute a sham under *Noerr-Pennington. See also Transitron Electric Corp. v. Hughes Aircraft Company,* 487 F. Supp. 885 (D. Mass. 1980), *aff'd on other grounds,* 649 F.2d 871 (1st Cir. 1981). A district court in Pennsylvania also recognized the *Handgards II* approach and protected a trade association's right to bring a lawsuit against competitors only "so long as the litigation has not been pursued in bad faith as a sham." *Zenith Radio Corp. v. Matsushita Elec. Indus. Co.,* 513 F. Supp. 1100, 1157 (1981), *aff'd in part and rev'd and remanded in part,* 723 F.2d 238 (3rd Cir. 1983). In contrast, however, another district court in Pennsylvania held that a pattern of litigation rather than one lawsuit was required for antitrust liability. *Bethlehem Plaza v. Campbell,* 403 F. Supp. 966 (E.D. Pa. 1975). And the only district court in the 11th Circuit confronting the issue stated that the scope of the sham exception to *Noerr-Pennington* is far from clear. *Gainesville v. Florida Power & Light Co.,* 488 F. Supp. 1258 (S.D. Fla. 1980).

Due to the confusion and inconsistent rules applied, multi-million dollar antitrust liability in cases like *Handgards* can turn on which Circuit—or which panel within a Circuit—happens to hear the case. The inevitable result of the conflicting standards for "sham litigation" imposed by the lower courts is to deter lawful conduct protected by the First Amendment and make good faith legal advice as to the risks inherent in bringing a lawsuit an exercise in futility.

In sum, the scope of the "sham exception" is one of the most litigated and one of the most significant unsettled antitrust issues in the courts today. The time is ripe for this Court to resolve the confusion and conflict with respect to this important doctrine.

## II. The Abdication by Both the Trial Court and the Appeals Court of Their Duty to Make an Independent Evaluation of the Evidence Supposedly Proving "Sham Litigation" Effective Negates First Amendment Protection of the Right to Petition

This case presents to this Court the question of the proper standard of judicial review to be employed when an antitrust plaintiff seeks to strip a defendant's First Amendment immunity under *Noerr-Pennington* by charging a "sham." We submit that formulating a proper standard of review for guidance of the lower courts rivals in importance the need to formulate a clear definition of the sham litigation exception itself.

The question is a simple one and never squarely addressed by this Court or any lower court with the exception of the Ninth Circuit and the District Court in this case. It can be stated as follows: does the rule requiring independent judicial review of factual findings used to defeat a First Amendment right apply to review of a jury verdict stripping the antitrust defendant of its *Noerr-Pennington* immunity? If the answer is affirmative, the result below cannot survive, because neither the trial court nor the Court of Appeals undertook an independent examination of the evidence so as to determine whether Ethicon perpetrated a sham.

This Court has held time after time that substantive constitutional rights are not to be negated at the uncontrolled and unguided whim of the trier of fact. "Judges, as expositors of the Constitution, must independently decide whether the evidence in the record is sufficient to cross the constitutional threshold that bars the entry of any judgment that is not supported" by constitutionally sufficient findings of fact. *Bose Corp. v. Consumers Union of U.S., Inc.*, ____ U.S. ___, 104 S. Ct. 1949, 1965 (1984) ("*Bose*"). As the Court stated in *Bose*, "in cases raising First Amendment issues we have repeatedly held that an appellate court has an obligation to make an 'independent examination of the record' " and that this "rule of independent review assigns the judges a constitutional re-

sponsibility that cannot be delegated to the trier of fact, whether the factfinding function be performed in the particular case by the jury or by a trial judge." *Id.* at 1959. "[T]he simple fact is that First Amendment questions of 'constitutional fact' compel this Court's *de novo* review." *Id.* at 1964, n.27.[10]

The judicial review of factfinding required by *Bose* is by no means unique to First Amendment cases. For instance, *Baumgartner v. United States,* 322 U.S. 665 (1944), a denaturalization proceeding, held that where the defendant's subjective state of mind was an essential issue of fact and the plaintiff had the burden of proof on that issue by evidence that was " 'clear, unequivocal and convincing' "—language strikingly similar to that of *Handgards*—the entire evidentiary record would be independently reviewed to ascertain whether the exacting standard of proof had been satisfied. 322 U.S. at 671.

Likewise, Mr. Justice Frankfurter stated in *Watts v. Indiana,* 338 U.S. 49, 51 (1949), a case involving a coerced confession:

> [An] "issue of fact" is a coat of many colors. It does not cover a conclusion drawn from uncontroverted happenings, when that conclusion incorporates standards of conduct or criteria for judgment which in themselves are decisive of constitutional rights. Such standards and criteria, measured against the requirements drawn from constitutional provisions, and their proper applications, are issues for this Court's adjudication.

A finding of "sham litigation" used as a predicate to penalize petitioning activity is clearly a finding of constitutional fact, no less than was the finding of "actual malice" in *Bose*. The courts below in this case, however, disavowed any "special responsibility" as articulated in *Bose,* 104 S.Ct. at 1962. The District Court rejected the duty to conduct an

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10 Similarly, in *Bill Johnson's Restaurants, supra,* the Court concluded that because of the First Amendment right at stake the NLRB "should consider the evidence with the utmost care before ordering the cessation of a state-court lawsuit." *Id.* at 2171.

independent review of the evidence (App. D at 63a) and on appeal, the Ninth Circuit affirmed its refusal to do so:

> We did not establish [in *Handgards I*] such a standard for a threshold legal determination by a district judge. (App. A at 10a)

The Ninth Circuit also ruled it had no duty to make an independent evaluation of a record to determine whether Ethicon had engaged in sham litigation. It held:

> We cannot reverse the jury's findings unless if, without accounting for the credibility of the witnesses, we find that the evidence and its inferences, considered as a whole and viewed in the light most favorable to the nonmoving party can support one reasonable conclusion—that the moving party is entitled to judgment notwithstanding the verdict. (*Id.* at 9a)

This form of review negates the "sham" test of *Bill Johnson's Restaurants*—whether the plaintiff in the prior action, here Ethicon, could have had a reasonable basis for filing and prosecuting the lawsuit. It disregards the evidence in Ethicon's possession giving it a colorable basis for suing Handgards for infringement, and validates the after-the-fact "bad faith" determination based on the kind of adverse evidence that will be present in any case involving disputed facts. Indeed, under the Ninth Circuit's view, even the advice of counsel that such evidence is insufficient to invalidate the patent,[11] will not save a patent owner from antitrust liability:

> Finally, Ethicon contends that its reliance on patent counsel precludes a finding of bad faith based on the 'on sale'

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11 Such advice is usually held to be a complete defense to a charge of bad faith litigation, absent clear evidence that it was wholly contrived. *Western Electric Co. v. Stewart-Warner Corp.*, 631 F.2d 333, 337-38 (4th Cir. 1980); *Eltra Corp. v. Basic, Inc.*, 599 F.2d 745, 757-58 (6th Cir. 1979); *Dole Valve Co. v. Perfection Bar Equipment Co.*, 458 F.2d 1200 (7th Cir. 1972); *Hernon v. Revere Cooper & Brass, Inc.*, 494 F.2d 705 (8th Cir. 1974), *cert. denied* 419 U.S. 867 (1974).

> or 'in public use' defenses. However, Handgards presented evidence that showed Gerard had knowledge of the prior delivery and order to Aloe, and that Ethicon also was aware of this transaction. Thus, *if* the jury found the patent invalid by reason of the transaction, this knowledge *could* support a finding of bad faith. (App. A at 16a; emphasis supplied)

The so-called evidence that "Handgards presented" consisted of stipulated facts known to Handgards during the pendency of the patent action. Thus, the issue was one of pure federal substantive law: whether on these undisputed facts the Gerard invention was placed "on sale" within the meaning of 35 U.S.C. § 102(b). Handgards' patent counsel apparently agreed with the advice given by Ethicon's counsel since he elected not to move for summary judgment on this affirmative defense, and then formally abandoned it prior to the trial. Nevertheless, the trial court, with the Ninth Circuit's approval, allowed the jury to decide, on the basis of "expert" testimony as to the content of federal law, whether Ethicon had a colorable basis for not believing this defense to be airtight.

Even in an action not involving Constitutional protections, it is the duty of the judiciary, not the jury by evaluating "expert testimony," to determine the content of federal substantive law. In holding that an expert could not testify on the legal standards of conduct imposed by the federal securities law, the Court in *Marx & Co. Inc. v. Diners Club, Inc.*, 550 F.2d 505, 512 (2d Cir. 1977) stated:

> The danger is that the jury may think that the "expert" in the particular branch of the law knows more than the judge—surely an inadmissible inference in our system of law.

The only other evidence placed before the antitrust jury that was not in the prior patent action was gossip first related in 1975 by a discharged employee of Ethicon that Gerard "knew" his patent was invalid. This incompetent hearsay tale, had it

been known to Ethicon's outside patent counsel during the patent trial, would not have proven the patent invalid and would not have resolved the underlying credibility issues relating to Shabram's alleged prior public use. Indeed at both antitrust trials it was offered and received solely as evidence of Gerard's state of mind, not as evidence of actual invalidity. Yet, as *Bill Johnson's Restaurants* makes clear, the sham litigation test does not turn on the subjective state of mind even of the officers and attorneys responsible for prosecuting the suit, much less that of a person like Gerard with no such responsibility. Rather, the test is whether the facts that might be proved and applicable law provided a "reasonable basis" for litigation. Clearly they did.

This case shows how refusal to apply Constitutional procedural safeguards may lead to the deprivation of First Amendment substantive rights. This Court, which has so often recognized that procedural protections are the root guarantors of First Amendment rights, should formulate the proper standard for judicial review of the sufficiency of the evidence relied upon to establish the "sham" exception in a *Noerr-Pennington* case.

## III. THE EFFECT OF PER SE ILLEGALITY GIVEN TO THE FINDING OF BAD FAITH PROSECUTION UNDERCUTS THE RIGHT TO PETITION AND CONFLICTS WITH THE RULINGS OF ALL OTHER CIRCUITS ON ATTEMPTS TO MONOPOLIZE

The Ninth Circuit completed its attack on enforcement of intellectual property rights here by giving a virtual *illegal per se* effect under section 2 to the alleged predatory act of "bad faith" prosecution of the prior suit.

First, it ruled without explanation that the adjudication of validity and infringement of Orsini and the coverage by that patent of the market created by Handgards for this case was "irrelevant" to the antitrust claim based on the market (App. A at 25a, n.23), and "in no way altered Ethicon's liability under the antitrust laws." *Id.* at 7a. Second, *Handgards II*

explicitly reaffirmed the ruling in *Handgards I* that "the requisite intent to monopolize in this case could be inferred from the finding of bad faith" (*Id.* at 18a). There was no direct or even circumstantial evidence of a specific intent to *illegally* monopolize the alleged market, which did not even exist until years after the suit was brought. Third, the court held that the absence of any evidence that competitors were actually excluded from the market by the infringement suit was also irrelevant to antitrust liability premised exclusively on the prosecution of that suit (*Id.* at 19a).

The practical result of these rulings was to render Ethicon liable for attempt to monopolize without any consideration of the real-world effects of the single act alleged to be illegal. Such a holding effectually strips the attempted monopoly doctrine of its antitrust objectives and converts it into some sort of Federal Unfair Business Practices Act to be applied when, as and if a jury in the Ninth Circuit, in its unexplained discretion, decides to do so.

This holding by the Ninth Circuit typifies its unique use of section 2 to punish under the antitrust laws what it regards as unfair acts. For example, in *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir. 1964), *cert. denied*, 377 U.S. 993 (1964), it held that a predatory act not only sustains the inference of specific intent to monopolize but also eliminates necessity for proof of a relevant market. The Ninth Circuit in *Handgards II* relied heavily on the *Lessig* doctrine, repeatedly citing its leading recent attempt decision that follows *Lessig*: *William Inglis & Sons Baking Co. v. ITT Continental Baking Co.*, 668 F.2d 1014 (9th Cir. 1981), *cert. denied*, ____ U.S. ____, 103 S.Ct. 57 (1982) (*see* App. A at 18a-19a).

The continuous application of this doctrine in the Ninth Circuit has caused this Court to invite the comments of the Antitrust Division of the Department of Justice in the petition for certiorari now pending in *Blanton v. Mobil Oil Corp.*, 721 F.2d 1207 (9th Cir. 1983), *petition for cert. filed*, 52 U.S.L.W. 3875 (U.S. May 18, 1984) (No. 83-1896); *see id.*, 53 U.S.L.W. 3235 (U.S., Oct. 1, 1984) (order). This Court has recently

granted certiorari to review the Ninth Circuit's *per se* treatment given to the expulsion of one member from a trade association without proof of competitive injury. *Pacific Stationery & Printing Co. v. Northwest Wholesale Stationery,* 715 F.2d 1393 (9th Cir. 1983), *cert. granted,* 53 U.S.L.W. 3235 (U.S. Oct. 1, 1984) (No. 83-1368).

This case presents a similar unique *per se* treatment by the Ninth Circuit of a supposedly predatory act and, we submit, should be either combined for review with the two other cases raising similar issues now pending before this Court from the Ninth Circuit, or held for disposition in light of the Court's eventual decisions in *Blanton* and *Pacific Stationery.*

## IV. THIS COURT SHOULD RESOLVE THE JURISDICTIONAL CONFLICT BETWEEN THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT AND THE REGIONAL COURTS OF APPEALS IN CASES ARISING IN PART UNDER THE PATENT LAWS AND IN CASES WHERE PATENT AND ANTITRUST ISSUES ARE INEXTRICABLY INTERTWINED

This case presents the issue recognized by Congress as the critical jurisdictional knot in creating the CAFC: Does the new court have exclusive jurisdiction of an appeal if the jurisdiction of the original action in the district court was based "in part" on patent claims or claims whose resolution depends on issues of patent validity?[12]

The district court's jurisdiction derived from both a patent claim (*Orsini*) and an antitrust claim based solely on three charges of patent invalidity (*Gerard*). Handgards presented the Orsini patent claim by amending its complaint to seek a declaration of the invalidity of that patent, and Ethicon successfully counterclaimed for a decree of its validity and in-

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12 H.R. Rep. No. 97-312, 97 Cong. 1st. Sess. (1981) ("House Report") at 41; S. Rep. No. 97-275, 97th Cong. 1st Sess. (1982) ("Senate Report") at 2-3, 19-20.

fringement. Handgards did not appeal from that adverse determination. Nevertheless, under the rationale of the CAFC's en banc ruling in *Atari, Inc. v. JS&A Group, Inc.*, No. 84-742 (Fed. Cir. 11/8/84), the second appeal fell within its jurisdiction because jurisdiction of the district court was founded "in part" on the Orsini patent claim.[13] Moreover, the recent decision of the CAFC in *Chemical Engineering Corp. v. Marlo, Inc.*, 222 U.S.P.Q. 738 (Fed. Cir. 7/16/84) resolved CAFC jurisdiction on basis of implementing the Congressional purpose of developing "doctrinal stability" and "nationwide uniformity in patent law". This antitrust case was dependent solely on three defenses to patent validity and is properly viewed as a compulsory counterclaim to the patent action. *Cf. Burlington Industries v. Milliken & Co.*, 690 F.2d 380 (4th Cir. 1982), and cases cited therein.

Although the Ninth Circuit recognized that the district court's jurisdiction "arose in part" under the patent laws, it held that the CAFC did not have jurisdiction of the second appeal for two reasons: (1) transfer of the appeal to the CAFC would be "wasteful and foolish," because the Ninth Circuit decided the first appeal; and (2) Handgards' decision not to appeal that portion of the judgment validating the Orsini patent removed patent jurisdiction from the case.

The first reason is irrelevant to the jurisdictional issue. When Congress created the CAFC, it did not grandfather any jurisdiction in the regional appellate courts, except as to those

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13 Ethicon filed the appeal in the Ninth Circuit in January 1983, a few months after the CAFC came into being. In doing so, it pointed out the jurisdictional problem to the Ninth Circuit and called to its attention the duty to transfer the appeal to the CAFC if jurisdiction of the subject matter properly belonged there. While, as the Ninth Circuit points out, both parties suggested that that court had jurisdiction, Ethicon also pointed out that this "issue can reasonably be decided either way" (Ethicon's Supplemental Br. p. 10). The recent decisions of the CAFC as well as the Fifth Circuit on the scope of CAFC jurisdiction, discussed herein, take an approach that differs from that of the Ninth Circuit's here.

appeals taken before October 1, 1982.[14] Second, jurisdiction of the CAFC depends on the jurisdiction of the district court, not the presence or absence of prior activity in a regional court of appeals.

In short, as the Fifth Circuit recognized in a recently decided case where there was no formal pleading of a patent law violation but which depended upon resolution of patent rights, the scope of CAFC jurisdiction is "unsettled and presents important questions about appellate jurisdiction in cases with patent issues". *Marsh v. Austin-Fort Worth Coca-Cola Bottling Co.*, 744 F.2d 1044 (5th Cir. 9/19/84). Setting forth workable guidelines for such jurisdiction presents still another important reason for granting this petition.

## CONCLUSION

For the reasons stated, a writ of certiorari to the Ninth Circuit should issue.

Respectfully submitted,

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14 Section 403 of Pub. L. 97-164 provided, in pertinent part:

"(e) Any case in which a notice of appeal has been filed in a district court of the United States prior to the effective date of this Act [October 1, 1982] shall be decided by the court of appeals to which the appeal was taken."